



REGULAR MEETING
PUBLIC EMPLOYEES' RETIREMENT BOARD

OCTOBER 27, 2005

The regular meeting was called to order by President Carey at 8:30 a.m. Thursday, October 27, 2005. Roll call was taken with all members of the Board being present. Board members and staff present were:

Carole Carey, President
Betty Lou Kasten, Vice President
Robert Griffith, Member
Jay Klawon, Member
Troy McGee, Member
John Paull, Member
Terry Smith, Member
Kelly Jenkins, Counsel
Melanie Symons, Counsel
Mike O'Connor, Executive Director
Linda Owen, Secretary

OPEN MEETING

Janet R. Kelly, Director, Department of Administration; Stephen C. Kologi and Jim Christnacht, AMRPE; Sue Winchester, Great-West Retirement Services; Jim Kembel, MPPA, MACOP, TIAA-CREF; Tom Schneider, MPEA; Kathy McGowan, MSPOA; Don Kinman and Robyn Rowe, AFSCME; Kurt Bushnell, Rick Ryan, Matt Norby, Scott Moore, Jack Trethewey, Ed Regele, and Doug Neil, members of the Montana State Firemen's Association; and Ian Steel, Disability Claims Examiner; and Carolyn Miller, Administrative Officer, MPERA, joined the meeting.

MINUTES OF OPEN MEETING

The minutes of the open meeting of September 29, 2005 were presented. Mr. Klawon moved that the minutes of the previous open meeting be approved. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Public Comment – Janet Kelly, Director of the Department of Administration, addressed the Board saying if there was anything the Department could do for the Board, within the law and their capacity, to give her a call.

Kathy McGowan, Montana Sheriffs' and Peace Officers' Association, stated she has received good feedback from the detention officers on the workshops that are being provided.

EXECUTIVE DIRECTOR'S REPORT – Kelly Jenkins, Board Counsel

Future Board Meetings – Friday, December 9, 2005. Thursday: January 26, February 23, and March 23, 2005.

President Appointments – The Board President needs to officially appoint the Education Committee, as well as members to the Tri-Party (BOI, TRS, PERB) Board at the Governor's request. The purpose of the Tri-Party board is to meet, at least annually, to coordinate and understand the needs and challenges of each board. Mr. Paull and Mr. Smith volunteered to be on the Tri-Party board.

The Education Committee currently consists of Mr. Klawon, Mr. Paul and President Carey. At President Carey's request for a replacement because of her full schedule as President, Mr. Smith offered to fill her position on the committee. Other Board members are welcome to sit in on any of the meetings and provide input.

Board Committees Policy – The "Board Committees" policy was prepared by staff for Board approval. It involves the establishment of Board committees, and how committees interact and conduct their business. Language was taken from the Board's Governance Principles in the preparation of this policy.

Mr. McGee requested deferral on the adoption of this policy, until the next meeting, in order to provide ample time to review it.

125 Plan Rules – The Board reviewed comments on the 125 Plan rules regarding when salary deferrals under a cafeteria plan should be treated as compensation. The Board's tax counsel, Ice Miller, reviewed the 125 Plan rules and provided comments. The Board's legal counsel provided amendments based on comments from tax counsel, addressing confusion in the comments and clarifying the language. Changes in Rule IV provided antecedents to words that were not properly defined in that rule, but did not change the effect of the rule.

Mrs. Kasten made a motion to approve the Notice of Adoption for New Rules 1 through VII regarding when Salary Deferrals Under a Cafeteria Plan should be Treated as Compensation, with an effective date of November 11, 2005, as presented. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Actuarial Valuations – June 30, 2005 – The Board was provided with actuarial valuations for all of the retirement systems, that reflected information presented by Mark Johnson, Consulting Actuary, at the September Board meeting. The valuations need to be adopted so they can be utilized in the development of legislation. Mrs. Kasten moved that the Board adopt the Actuarial Valuations as of June 30, 2005, as performed by Milliman. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Legislative Proposals – Mr. Jenkins addressed the notion there will be one-time general fund money (\$25 million) contributed to Board-administered retirement systems that are in actuarial trouble. That money might be applied more toward taking care of the financial problems, to the extent possible, in the small systems (Sheriffs' Retirement System [SRS], and Game Wardens' and Peace Officers' Retirement System [GWPORS], with the balance going into the PERS (recognizing that would not be enough to take care of the PERS problem). The direction the Board wishes to go should be reflected in the Board's proposal to the SAVA committee.

In the SRS, even with a 30-year amortization period, the normal costs of that retirement system are more than the employer and employee contributions coming in. Mr. Jenkins explained that if you get into a 30-year amortization period because the normal costs are higher than contributions, the very next year you would go into an unfunded liability situation that is over 30 years once again. The SRS employer contributions would need to be increased in an amount to be calculated by the Board actuary as necessary to cover normal costs of the retirement system, effective July 1, 2006. That would be 0.67% of payroll.

With the one-time money of \$25 million, Mr. McGee felt the small systems should be funded first and the balance go to the PERS. However, the money put into the SRS would only delay the problem for a while. Mr. Klawon stated that if the Board has the opportunity, and the legislature is focused on this, we should fix things correctly going forward. Mr. Smith noted that at the last legislative session, the Governor's Office and Budget Director were interested in paying off the \$1.3 million start-up loan for the Defined Contribution Retirement Plan (DCRP). Mr. Smith suggested that with the \$8.7 million that is left over after fully funding the SRS and GWPORS, since that amount would not do much for the PERS DBRP, this would be an opportunity to put in writing a request to pay off that start-up loan for the DCRP.

In HB 148, Section 4, 19-7-404(3), MCA states "...each employer shall contribute to the system an additional sum equal to 1.2% of the compensation paid..., increasing to 2.4% beginning July 1, 2007. Mr. Jenkins explained the reason for the increase is because we had to amortize some unfunded liability that had already built up. That is what the \$15.1 million of one-time money would take care of. All that would be left then would be the differential between the current contributions coming in and the normal cost, and that would be approximately 0.67% on an ongoing basis. The \$15.1 million plus the 0.67% is equal to the \$2.4 million.

If the legislature would fund these systems with the percentages needed to put them back on track, would that equal \$25 million, or maybe \$50 million? If that were the case, Mrs. Kasten would rather go with a percentage increase rather than a lump sum because then there would be the basis for a completely funded system. This would keep the retirement system where it should be instead of "fixing" the problem each year.

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Mr. Jenkins felt the Board was getting way ahead of itself. He pointed out that the Governor is saying he will try to help out by the infusion of some one-time money, approximately \$25 million. Is the Board favorable to receiving a lump sum, one-time \$25 million, as opposed to nothing, or applying it to the percentages that are necessary? Board consensus was to take the lump sum money as a one-time expenditure. Board consensus was to apply it to the small systems first, to get them into a 30-year amortization period, and the balance, somehow, to the PERS DBRP.

The Board needs to decide what they are going to do with the different costs within the DCRP? What happens after the lump sum money comes into the system? There would still be some amount of employer contribution increase that will be necessary. A lengthy discussion ensued.

Mr. Smith moved that the Board's recommendation for special session funding legislation contain the following features:

Infusion of one-time money on January 1, 2006, in the following amounts, so small retirement systems (SRS and GWPORS) are brought to a 30-year amortization period based on the actuarial report:

- A. \$15.1 million to SRS
- B. \$1.2 million to GWPORS
- C. \$1.3 million to DC Start-up Loan
- D. The balance to PERS

Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with six of the attending members voting aye, and Mrs. Kasten voting nay.

President Carey made a motion that the Board's recommendation for special session funding legislation was to increase the employer share by 0.67% in the SRS. Mr. McGee seconded the motion. Mrs. Kasten stated that, if the first motion does not pass the legislature, then she wants the percentage to be much greater. President Carey amended her motion that if the unfunded liability were paid off through a lump sum benefit, then an increase of 0.67% in the SRS would be acceptable. Mr. McGee seconded the amendment, which upon being submitted to vote, was duly carried with six of the attending members voting aye, and Mrs. Kasten voting nay.

Mr. Smith talked about the PCR and one-time money coming in. He would like to amend how the balance of the money to the PERS DBRP will be allocated after taking care of the SRS and GWPORS. A motion on how that balance is allocated needs to be determined. Mr. Jenkins advised the Board that he spoke with Mr. O'Connor, who said he would like to apply the lump sum amount in PERS to the DB plan and use the excess employer contributions for the DCRP. Mr. Smith would like, first and foremost, to pay off the PCR unfunded liability as necessary on a percentage basis, and then pay off the loan as quickly as possible with pre-payments. Mr. Jenkins stated the PCR reflects the actual unfunded liability of the retirement system as it existed at the time people had the choice that they made.

Mr. Jenkins stated HB 148 increased the PERS employer contributions in two phases: July 1, 2006 and July 1, 2007. In his estimate, the percentage increase would be greater than 0.66%; it would be roughly .85% each time. Does the Board want to recommend those increases be implemented as quickly as possible within budgeting capabilities of governmental agencies? Or should it be implemented in total, being an increase of 1.58% on July 1, 2006. Mr. Jenkins was not sure how the 1.58% would be affected by a one-year phase-in rather than a two-year phase-in. Mr. McGee felt it should be phased in, and aim for July 1, 2006, not January 1, 2006. The percentage determined could be split roughly in half in each of two phase-in increases: July 1, 2006 and July 1, 2007.

Mr. Smith moved that the Board's recommendation for special session funding legislation contain the following features:

That the PERS employer contribution is increased in an amount to be calculated by the Board actuary in two roughly equal phases, the first increase July 1, 2006, and the second increase July 1, 2007. The increase can sunset when the sunset will leave the system with an amortization period of less than 25 years. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Board of Investments/Chief Investment Officer – Cliff Sheets – Carroll South, Executive Director with the Board of Investments (BOI), introduced Cliff Sheets, who replaces Jim Penner as the new Chief Investment Officer (CIO). Mr. Sheets has relocated from Cedar Rapids, Iowa. He addressed the Board, commenting briefly on his professional background and explaining his approach toward pension fund management.

Mr. Sheets felt his strengths come from his broad knowledge of the capital markets and money management business, and his familiarity with managing pension assets. He felt it is important to take a common sense perspective and try to understand the liabilities first and invest accordingly, investing assets in a prudent manner with a long-term perspective. Asset allocation needs to be driven by realistic return expectations and a respect for the risks of individual asset classes. Diversification is very important within the pension portfolio, both across asset classes and within asset classes. He takes his professional role very seriously and looks forward to helping the Board achieve their objectives.

Plan Choice Rate Options – Mr. Jenkins advised the Board that legislative proposals #6-8 and #13-15 involve the extra contributions into the DCRP for the DC employees, and the PCR and the expenses. HB 148 allocated the extra contributions in the DCRP for the DCRP employees to administrative expenses, including the plan loan. To this point, the Board has decided to pay off that plan loan with lump sum money, so that is not an alternative that needs to be addressed in the Board's scheme of things. But at the end of the two-year phase-in, we still have roughly 1.8% of payroll going in, and from his calculations, Mr. Jenkins felt that was approximately \$900,000.

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The DCRP expenses are roughly \$250,000 a year and currently, come out of the employees' accounts. With the PCR, there are two basic alternatives: increase the amount of the PCR either including it in the PCR or having a new concept. Administrative expenses and PCR/UAL are the two things the extra 1.8% can be applied towards.

Mr. McGee was thinking about increasing the number of years we have to pay off the PCR to what the actuary indicated would be necessary---24.4 years of payoff for the unfunded liability, and leave the PCR at 2.37%. Mr. McGee felt there were only two ways of handling this: to increase the number of years so the 2.37% will handle it, or increase the percentage to 2.77%. He would prefer not to increase the percentage, but to increase the number of years to what the actuary indicates is needed.

Mrs. Kasten asked if the anticipated employer contribution increase would be over and above the 6.9% now being paid? Mr. Jenkins stated yes, that for all PERS members, in both the DB and DC plans, there would be the same employer contribution rate increase. It would be a phased-in increase, half on July 1, 2006 and half on July 1, 2007, in an approximate amount in the first year of .85% and the second year another .85%, for a total of 1.7%, roughly speaking (1.8%).

Mr. Smith moved that the Board's recommendation for special session funding legislation contain the following features:

That the DCRP and ORP Plan Choice Rate will remain at 2.37% of payroll. The amortization window will increase to 17.25 years providing a maximum initial 30-year amortization period (years left 27). The increased DCRP and ORP employer contributions to be applied to the PCR/UAL (unfunded actuarial liability). Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Mr. Jenkins addressed the issue of the balance on the \$25 million, when it goes into PERS, does the Board intend that to go to the PERS/DBRP to pay down unfunded liability in the DBRP? Five percent of the \$25 million has already been allocated to the DCRP to pay off the loan. Should the other remaining go to the DBRP to pay down the unfunded liability? Mr. Paull made a motion that the balance of the PERS infusion be put towards the unfunded liability of the PERS/DBRP. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Board of Investments Update – Mr. Paul gave a brief report stating preliminary information was received from the Independent Fiduciary Services study (IFS) that the Board of Investments seeks a Retainer Investment Consultant to perform ongoing service for the BOI and to conduct an asset liability study for the pension funds. The BOI asked for an RFP on August 8, 2005. Seven firms responded; two were considered as finalists. The Audit Committee should have a recommendation to the BOI at their November 10, 2005 meeting.

Legislative Committee Update – Ms. Symons reported that the SAVA committee met October 6, 2005 and the Legislative Financial Committee met October 7, 2005. The October 6 meeting was devoted entirely to retirement issues, with the entire morning being given to rule-making processes. The committee appreciated the letter from President Carey regarding the rule making for detention officers.

The SAVA committee is considering developing a CPERS committee that deals with just retirement issues. Perhaps they may increase the size of the SAVA committee and then create a subcommittee composed of SAVA members that would be devoted just to retirement issues. As much as their rules would allow, those same people would be on the committees that looked at retirement bills during the legislative session.

There was concern how communication will be retained between the Board and the SAVA committee when the MPERA Executive Director retires. Mr. O'Connor had indicated to them that this would be addressed by this Board and that communications would continue.

Operational Summary Report - The Executive Director presented an operational summary report for the month of September 2005, answering any questions Board members had.

The following portion of the meeting relates to matters of individual privacy. President Carey determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

CLOSED MEETING

CONTESTED CASES

Barbara Fink - Informal Consideration – Mr. Klawon moved that the Board adopt as its Final Decision the hearing examiner's Proposed Decision granting disability benefits to Barbara Fink. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

MINUTES OF CLOSED MEETING

The Executive Director presented the minutes of the closed meeting of September 29, 2005. Mr. McGee moved that the minutes of the previous closed meeting be approved. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

RETIREMENT REPORT - Ian Steel, Disability Claims Examiner

Disability Claims - The Disability Claims Examiner presented the disability claims for Board consideration. Mr. Paull made a motion for approval of the disability claims as recommended for Natalie Romero, Patti Schwenke, and Basilio Perez, without annual review; for Loretta Reichert, with annual review; a duty-related disability with annual review for Branden Stevens; and denying the claims for Michael Bentley and Juliana Stevens. President Carey seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

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Disability Reviews - The Disability Claims Examiner presented the disability reviews to the Board. After discussion of all the reviews, Mr. Paull made a motion to approve the disability reviews as recommended: to continue disability retirement with review in six months for Shirley Quick; and to recommend an IME with Dr. Allen Weinert for Lori Williams-Stetson. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Finalized Service/Disability Retirement Benefits, Monthly Survivorship/Death Benefits, and Funeral Benefits - Applications for service retirements/finalized disability benefits, applications for monthly survivorship-death benefits, VFCA lump sum death benefit payments, and applications for funeral benefits were presented to the Board. Mr. Griffith made a motion to approve the retirement benefits as presented. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Contested Case Report Update - The Board Attorneys presented a contested matter status report update.

Mark Reddick – Informal Request – Mr. Reddick appealed the amount of service credit he has been credited with. After discussion, Mr. Griffith made a motion that the Board grants the appropriate service credit to Mark Reddick for March through July 1998. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

ADJOURNMENT

There being no further business to come before the Board at this date, President Carey adjourned the meeting. The next meeting is tentatively scheduled for Friday, December 9, 2005, at 8:30 a.m. in Helena.